Minutes of the Meeting of the
Treasury Borrowing Advisory Committee
Of the Securities Industry and Financial Markets Association
February 3, 2009

The Committee convened in closed session at the Hay-Adams Hotel at 11:25 a.m. All Committee members were present except for Susan Estes. Acting Assistant Secretary for Financial Markets, Karthik Ramanathan welcomed the Committee and gave them the charge.

The first item on the charge related to Treasury's increasing financing requirements and the potential need to make further changes to the auction calendar in a manner that would provide the greatest flexibility to Treasury while minimizing the impact on markets. Assistant Secretary Ramanathan delivered a presentation to the Committee which highlighted current fiscal conditions and potential factors to consider in addressing this issue.

Assistant Secretary Ramanathan stated that market estimates for the FY 2009 deficit averaged $1.6 trillion (vs. dealer estimates of $988 billion in November 2008), and marketable borrowing needs ranged between $1.5 trillion and $2.5 trillion. Highlighting several charts, Ramanathan stated that the fiscal outlook remained challenging, and potential measures to improve the economy portended sizeable borrowing requirements for at least FY 2009 and FY2010. Given the uncertainty regarding various proposals, many market participants have yet to fully incorporate firm values in their deficit or marketable borrowing estimates. Specifically, market participants were generally uncertain regarding fiscal measures, current legislation, and other credit market actions which may serve to alleviate current conditions.

Ramanathan noted that there has been significant declines are becoming evident in receipts, stemming from sharp declines in both corporate and individual taxes. In the last quarter, receipts were lower by 10 percent, with corporate taxes lower by 46 percent year-over-year. Outlays were 45 percent higher, reflecting nearly $320 billion in expenditures related to the Troubled Assets Relief Program (TARP) and the Housing and Economic Recovery Act of 2008 (Senior Preferred Agreement investments and Agency MBS purchases related to Government Sponsored Enterprises) as well as other financial market stabilization efforts. Current trends in both receipts and outlays, and the lag effects of economic activity, suggest that financing requirements will remain sizable for the remainder of this year and into next year.

Ramanathan noted that the rapid disbursement of funds related to TARP required increases in bill financing and short-dated coupons. As a result, the average maturity of the overall marketable debt portfolio fell to 49 months. While this lowered average maturity, Treasury at the same time introduced a second reopening of the 10 year and moved to quarterly 30-year bonds so that bill issuance could roll into coupon issuance. Bills currently represent about 33 percent of outstanding marketable debt, and while demand remains robust, Treasury recognizes the need to monitor short-term issuance versus longer dated issuance. As a result, Treasury is balancing the borrowing profile to address these large financing needs (in the short to medium term) while also preserving flexibility to address cyclical or structural shifts.

To that end, Ramanathan stated that Treasury will seek to extend the average maturity and duration of the portfolio with the realization that continued large issuance from bills and shorter dated coupons will make this extension a gradual process.

The charts then highlighted constraints to be considered in deciding how to extend the portfolio, including risk appetite by the market, balance sheet constraints, and competition by other less liquid yet guaranteed or "effectively guaranteed" products. Moreover, state and local government securities program has seen redemptions to-date of over $10 billion, coming on top of last year's redemptions of $36 billion and FY 2007 *issuance* of $58 billion.

Ramanathan noted that gross issuance of Treasuries will potentially reach $6.5 trillion dollars in FY2009. Increases in issuance sizes, issuance frequencies, the issuance of larger, longer-dated cash management bills, and the introduction of securities would serve to finance funding needs. Ramanathan stated that issuance sizes of nominal coupons would be increased while TIPS would continue to grow at a slower pace based on several studies which show a higher cost relative to nominal issuance.

Before discussing the first item in the charge the Committee moved on to the second item in the charge concerning factors that Treasury should consider in fiscal years 2009 and 2010. A Committee member gave the presentation.

The presenting member began by noting that the trends in unemployment rate where closely correlated with tax receipts and that the general consensus was that unemployment rates would rise from current levels, suggesting that Treasury funding needs would be sizable for some time. The presenting member noted that FY09 net borrowing could be as high as18 percent of GDP while debt to GDP ratios were projected to rise above 50 percent.

The presenting member noted that the Fed's stance on monetary policy would likely be stable at current low rate levels for at least a year and perhaps longer. The presenting member enumerated several programs that would compete for funding including several Federal Reserve liquidity facilities, FDIC programs and Agency programs. Some of these programs, such as the FDIC insured bank debt program which has issued $147 billion to date, while illiquid and with varied terms, were potential alternatives to Treasury debt.

The Committee member then clearly noted that as a percent of debt to GDP, Treasury was well below other major G7 nations, and its capacity to borrow was large given the size of GDP. Lower financing rates as well as a deep, active market also increase Treasury's ability to borrow.

The presenting member then raised the issue that international investment, particularly from Asia, was an important component to future funding. The member noted that growth world wide was declining and trade flows were being impacted, potentially leading to a more domestically- oriented position on investments.

At that point, a discussion followed regarding the best course of action for Treasury.

A member began by noting that liquidity preference was high for Treasuries and that the ability to fund in bills and shorter-dated coupons remained high. Another member stated that some money funds were closing to new investors and that might impair funding capacity.

One member asked if Treasury was publicizing "Treasury Direct", the online system that allows institutional and retail investors to purchase securities directly from Treasury at the auction. Ramanathan noted that Treasury explicitly lowered the minimum denomination on marketable Treasuries to $100 from $1000 to broaden the scope of potential investors, but also noted that savings bonds investments have declined for the past 20 consecutive quarters.

One Committee member raised the issue of lower liquidity in the Treasury market in the previous quarter, indicating that government trading desks were constrained by balance sheets. Several members stated that liquidity had improved since the fails situation in the fourth quarter of 2008, and that the liquidity in the market prior to 2007 was not sustainable. Another member stated that current conditions, while less liquid, still were attractive to domestic and international capital.

Another member said that if Treasury continued to remain completely transparent and predictable in its issuance pattern and decisions, demand would appear at a market price. Most of the Committee stated that Treasury should continue its transparent decision-making process – despite the high degree of uncertainty – and that its signaling of potential changes in advance as more information becomes available has greatly assisted market participants. Given larger benchmark coupon sizes and the potential need for additional securities, telegraphing these moves as has been done over the past in a broad manner would enable greater risk taking and appetite.

The Committee then turned to a discussion of what specific actions should be taken at this juncture given the uncertainty facing Treasury. There was consensus that Treasury should extend the maturity of the debt portfolio. Committee members were reluctant to suggest that Treasury target an average length because such a target may limit flexibility at some future point.

The Committee stated that benchmark nominal coupon issuance sizes could be increased over the next few months by at least five billion each in most issues out to five years with minimal concession, with even greater flexibility for increases in the 5-year note. Members stated that moving from quarterly to monthly 30-year bond issuance in which the security is reopened twice in the months following the initial quarterly offering was appropriate and would help extend average maturity while addressing borrowing needs in the longer term

There was a general consensus that the market was expecting the reintroduction of a 7-year note. Committee members felt that monthly issuance was appropriate, and suggested an initial monthly offering followed by two reopenings. Members suggested that the 7-year would fit in the auction calendar at the end of the month after the 2-year and 5-year note auctions. The remaining financing could be done in bills, both regular and longer dated cash management bills.

Members also discussed the potential to issue other securities if needed including a reintroduction of a 4-year note, a 20-year bond, and/or longer-dated debt but stated that it was premature to proceed with any of those options at this time since nominal sizes could be increased and the additions to the calendar would assist Treasury in achieving its financing.

Ramanathan noted that calendar issues, including dates for auctions and settlement dates, needed to be considered if additional securities were introduced.

The meeting adjourned at 12:50 PM.

The Committee reconvened at the Department of the Treasury at 6:00 p.m. All of the Committee members were present except for Estes. The Chairman presented the Committee report to Acting Assistant Secretary Ramanathan.

A brief discussion followed the Chairman's presentation but did not raise significant questions regarding the report's content.

The Committee then reviewed the financing for the remainder of the January through March quarter and the April through June quarter (see attached).

The meeting adjourned at 6:15 p.m.

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Karthik Ramanathan, Director
Acting Assistant Secretary for Financial Markets
United States Department of the Treasury
February 3, 2009

Certified by:

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Keith T. Anderson, Chairman
Treasury Borrowing Advisory Committee
Of The Securities Industry and Financial Markets Association
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Treasury Borrowing Advisory Committee Quarterly Meeting
Committee Charge – February 3, 2009

Fiscal Outlook

Treasury is expecting to make further changes to the auction calendar as a result of increased financing needs. What adjustments to the current securities offerings should Treasury make at this time that would be easily introduced and provide increased flexibility?

Impacts of Liquidity initiatives on Treasury Borrowing

What factors and/or issues should Treasury be aware of in fiscal years 2009 and 2010? Please discuss the implications for Treasury borrowing of the various government liquidity programs and loan guarantees as well as other exogenous factors.

Financing this Quarter

We would like the Committee's advice on the following:

- The composition of Treasury notes and bonds to refund approximately $36.3 billion of privately held notes maturing on February 15, 2009.
- The composition of Treasury marketable financing for the remainder of the January - March quarter, including cash management bills.
- The composition of Treasury marketable financing for the April - June quarter, including cash management bills.